

Committee on Resources, Subcommittee on Energy & Mineral Resources

[energy](#) - - Rep. Barbara Cubin, Chairman

U.S. House of Representatives, Washington, D.C. 20515-6208 - - (202) 225-9297

Witness Statement

My name is Tom Fry and I am the President of the National Ocean Industries Association, or NOIA. NOIA is the only national trade association representing all segments of the offshore industry with an interest in the exploration and production of hydrocarbon resources on the nation's Outer Continental Shelf. The NOIA membership comprises more than 300 companies engaged in numerous business activities ranging from producing to drilling, engineering to marine and air transport, offshore construction to equipment manufacture and supply, telecommunications to finance and insurance.

I am delighted to have the opportunity to discuss some of the possible short-term solutions available to the American people to increase our domestic energy supply from public lands, specifically the important choices that we face with regard to offshore energy exploration and production from the submerged public lands of the federal Outer Continental Shelf (OCS). In light of the tightened energy markets, volatile commodity prices, and the tragic situation in California, this topic clearly demands our urgent attention. Furthermore, a frank discussion of our current energy situation is particularly timely because I believe that the nation has arrived at a pivotal point with respect to how we address these issues.

Pivotal in this sense: in the next few months our elected leaders will be asked to make some important choices. If the right decisions are made, the United States could be embarking on an unprecedented era of innovation and growth. If the wrong decisions are made, we could be walking down a path of uncertainty, constriction, and economic tumult. The choices that this committee and other of our national leaders will make in the coming months will determine whether our future will be a time of growth and prosperity, or a time of constriction and uncertainty.

I have been called here to address short-term solutions to these problems, and I will. But when I discuss "short term", I am thinking in terms of years as opposed to weeks. I have no immediate answers to California's quandaries, but I will offer some suggestions as to how we as a nation can avoid the missteps that could create similar crises in other regions of the country.

Background

At present, the United States imports considerably more than half of the oil that we require to support our quality of life and our economy. As demand escalates, we will likely continue to grow more dependent on foreign oil. While it is unlikely that our nation could ever operate independently of the volatile world oil markets, an increase in production would go far toward stabilizing domestic prices, and increasing our ability to counterweight OPEC's price manipulations. The United States has oil -- a great deal, in fact. In recent times, however, we have chosen to rely increasingly on overseas production, treating our domestic hydrocarbon production as if it were a shameful vice to be hidden and avoided. Of course, energy production is not a vice, and we certainly cannot afford to avoid or ignore it. It is now clear that an increase in domestic oil production is needed if we are ever to attain some degree of flexibility with which to cope with the issues that have confounded consumers across the country in recent years.

With respect to natural gas, an increase in domestic production is not only desirable to cushion us from volatile markets; it is absolutely necessary if we are to meet even our most basic needs. According to the Secretary of Interior's OCS Policy Committee's Subcommittee on Natural Gas, in 1998, the United States consumed 21 trillion cubic feet (TCF) of natural gas, but produced only 18.7 TCF. Imported Canadian natural gas provided the balance of supply.

Recently the U.S. Department of Energy, the National Petroleum Council and others have predicted that the U.S. demand for natural gas will increase to 35 TCF in little more than a decade. While we continue to import a great deal of gas from Canada, our neighbors to the north are running at full tilt in order to meet their own climbing domestic needs. **Here is an important point: since natural gas is imported through pipelines, it is not currently feasible to meet our skyrocketing demands with natural gas from overseas.** We must increase our domestic production to meet this demand. The American people have demonstrated their preference for clean-burning natural gas to generate their electricity. **Over 90 percent of our planned electrical generation capacity in this country will be natural gas-fired.** It is clear that we are moving rapidly toward a much greater reliance on natural gas. This is not a bad direction for our nation. Increasing our utilization of natural gas will enhance our quality of life. It is our most readily available source of clean energy. We should use more.

However, if we head in the direction of greater natural gas reliance, while simultaneously choking off our supply; we are heading for tragedy. The policy of increasing our demand while decreasing our access to supply is a recipe for disaster. We must make swift and direct steps that will increase our domestic production in order to preserve our strong economy and high standard of living.

The offshore energy industry is working tirelessly to increase production. More than one-fourth of the oil and one-third of the natural gas produced in the United States is harvested from the Gulf of Mexico. NOIA's members are currently working at maximum capacity to bring America the energy it needs. We will do our part, but we can't do it alone. You, our congressional leaders, as well as the President and the Executive Branch agencies, face some important choices that will determine whether we as a nation are able to meet these pressing demands.

The 5-Year Plan

The first decision that must be addressed is the Minerals Management Service's 5-Year Plan for Oil and Natural Gas Leasing on the OCS, which the MMS is currently in the process of compiling for the years 2002 through 2007. This plan determines which of our submerged federal lands will be available for leasing, and which will be off limits to mineral exploration. Areas included in the plan are considered for leasing, but need not be leased. Areas not included in the plan, however, cannot be leased.

The choices made in the formation of this plan will impact our economy and our standard of living for years to come. It is important to underscore here that the 5-Year Plan will dictate what energy resources we have at our disposal well into the future. For many offshore operations, the cycle time from the moment a tract is leased to the time first oil or gas production occurs can average between 2 to 5 years, though in many deepwater regions, the time required sometimes exceeds 10 years. It is important to understand therefore, that the 5-Year Plan will determine what energy resources we will have at our disposal not only in the next two years, but also in the year 2012 and beyond.

NOIA asks that the MMS be allowed to include areas currently under moratoria in the 5-Year Plan in order to determine the resource potential of the federal OCS. Basic assessment activities such as socioeconomic

studies, geological and geophysical studies, and environmental impact assessments that are typically done on areas included in the 5-Year Plan, should be done on these areas, even though leasing is not currently an option because of executive moratoria. Failing to engage in these basic assessments would be to continue to conduct the energy debate in a vacuum, ignoring the entire spectrum of our choices and alternatives until it is too late.

As it now stands, we have little knowledge of what our hydrocarbon resource base comprises. Excepting what we know of the central and western Gulf of Mexico, and certain areas off the coasts of California and Alaska, we simply do not have any adequate knowledge of what resources we are sitting on, and whether or not they are recoverable economically and environmentally. Not all areas are suitable for development. However, before we can have an informed discussion, it is imperative that we carefully examine all areas likely to contain hydrocarbons that can be found and harvested in a manner consistent with our nation's highest environmental standards by including them in the 5-Year Plan. Any other course of action would rob the MMS, and the nation, of the flexibility we require in order to meet our rapidly changing energy needs.

Currently 85 percent of the lower 48 state's coastal lands are off limits to hydrocarbon resource development. Although the MMS continues to issue a resource assessment every year that estimates the amount of hydrocarbons available in these areas, the agency is basing these determinations on decades-old information. In light of the technological leaps that the industry has made in the past few years with seismic exploration and deepwater drilling ability, to name but two, the current MMS assessments based on data from the 1980s in most cases, are grossly inaccurate. If we do not include these areas in the 5-Year Plan and allow for basic work to be done, we cannot have a reasonable debate about a national energy policy, because we will not have all, or even most, of the facts before us.

The most important lesson to be drawn from the energy crisis in California is that we must not allow ourselves to be painted into a corner. Our policymakers must allow themselves the full flexibility to deal with changes in our energy supply including the machinations of OPEC countries, a volatile business cycle, aging infrastructure, and a tight labor market.

If the MMS is not given the authority to consider the full range of options in the upcoming 5-Year plan, then we will be painting ourselves into a corner. And I fear that such a decision will leave us without the energy security and reliability required for prosperity and growth.

Lease Sale 181

Another vital step that we must take to increase energy production is ensuring that upcoming Eastern Gulf Lease Sale 181 occurs as planned and on schedule.

At a time when 90 percent of our planned electrical generation capacity will be fired by natural gas, the estimated 7.8 trillion cubic feet of natural gas in the Sale 181 region is vital to our national security and our economic prosperity. That is enough clean-burning natural gas to supply 4.6 million households for 20 years -- and if our experience in the central Gulf is any indication, 7.8 trillion cubic feet is a very conservative estimate of the resource potential of the area. (Again, as I noted earlier, the current resource estimates of the Sale 181 region's potential are based on very limited exploration work done in the mid-1980s.)

Lease Sale 181 is a key component of our energy future because it is a region with an already existing infrastructure that can be utilized rapidly and with a minimum of turnaround time to bring our country the

energy we need. That the Eastern Gulf is also nestled neatly in one of the most rapidly growing population centers in the United States only underscores the sale's importance. The streamlined development of the Sale 181 area's resources is what will prevent Florida from becoming our next California-style energy crisis.

Coastal Zone Management

Another important issue that I would ask Congress to address, which could have even more immediate implications for the stability of our domestic energy supply is the Coastal Zone Management Act of 1972 (CZMA), and its subsequent implementing regulations. The CZMA is an excellent example of good legislation that has gone awry as it has been implemented over the years. The act was passed with the laudable intention of creating a national program that would encourage states to manage and balance competing uses of, and impacts to, coastal resources. However, anti-development interests within states have used the law to stall or halt offshore development by taking advantage of loosely worded passages within the statute and regulations that enmesh offshore lessees in a never-ending loop of permit approvals and appeals.

A recent example of the law's potential for misuse occurred when Florida officials signaled their intention to use the CZMA's federal consistency provisions to oppose the use of Floating Storage, Production, and Offloading (FPSO) systems in the central and western planning areas of the Gulf of Mexico -- regions that are far removed from Florida's coastal waters. NOIA believes that it is vital that FPSOs are approved for use in the Gulf, as they hold great potential to improve the economics and efficiency of the deepwater operations that are behind the continued dynamism of the region. NOIA is asking legislators to review the CZMA and to remove the aspects of the law that obfuscate its original intent -- paying specific attention to the approval processes that currently have no finality or reasonable timeline in place.

Streamlining the Minerals Management Service

Another issue that relates to expedited permit processes -- and therefore to a more rapid increase in energy supplies -- is the MMS's proposed "e-Government" initiative. The hip, 'new economy' name of this effort disguises a regulatory initiative that could have real value for government officials, industry operators, and energy consumers. In essence, the e-Government program would allow the industry to submit permit applications over the Internet, stream safety and geophysical data to a secure central server at MMS. This would allow for immediate permit confirmation, more reliable and accurate record keeping, and a greatly streamlined working relationship with the MMS. In an industry where consumer responsiveness is so important, where time is money, and where good data equals sound decisions, NOIA strongly supports the e-Government initiative at MMS and asks that the appropriators ensure that the agency gets the funding it needs to pilot such an effort.

Conclusion

In closing, I would like to comment on a very positive step that was recently taken by the Vice President's Energy Policy Development Group, and that is the recommendation that the President create a governmental unit of energy policy oversight. This White House-level oversight body will ensure that new regulations and policies will be carefully examined for the potential impacts to our energy supply and demand. The office would be similar to the White House's Council of Environmental Quality whose mandate is to review regulatory impacts to the environment. NOIA believes that such an office would guard against the enactment of regulations that, while well intentioned, have an overall negative impact on the stability of our energy supply or, conversely, on our energy demand.

I have touched on only a handful of the choices that our leaders must face. But the course that is chosen will have a lasting impact on the reliability and abundance of our domestic energy supply and therefore, on our nation's economic future and the sustained health of our standard of living.

On behalf of the ocean industries, I ask our nation's leaders to choose wisely. Their public trust obliges them to plan carefully now to secure a bright future for the United States.

Thank you very much for your time and attention.

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